



BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON  
Chairman  
WILLIAM A. MUNDELL  
Commissioner  
JEFF HATCH-MILLER  
Commissioner  
KRISTIN K. MAYES  
Commissioner  
GARY PIERCE  
Commissioner

Arizona Corporation Commission

DOCKETED

JUN 28 2007

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IN THE MATTER OF THE APPLICATION  
OF SOUTHWEST GAS CORPORATION  
FOR APPROVAL OF REVISIONS TO ITS  
RATE SCHEDULE NO. T-1,  
TRANSPORTATION OF CUSTOMER-  
SECURED NATURAL GAS.

DOCKET NO. G-01551A-06-0746

DECISION NO. 69668

ORDER

Open Meeting  
June 26 and 27, 2007  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Southwest Gas Corporation ("Southwest") is engaged in providing natural gas service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.

2. On November 24, 2006, Southwest filed for Commission approval of revisions to its rate schedule number T-1, Transportation of Customer-Secured Natural Gas ("T-1 tariff"). Southwest cites a need to conform its tariff to recent changes implemented by El Paso Natural Gas Company ("El Paso") on its interstate pipeline system.

3. In Decision Number 69203 (December 21, 2006), the Commission suspended this filing for 120 days, through and including April 24, 2007, to provide Staff with additional time to analyze the filing.

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1           4.     On April 16, 2007, the Commission suspended this filing for an additional 120  
2 days, through and including August 22, 2007.

3           5.     On May 23, 2007, Southwest made a filing containing a number of revisions to its  
4 proposed T-1 tariff changes contained in its initial filing.

5           6.     On January 18, 2007, Southwest Gas held a meeting with its T-1 tariff customers to  
6 discuss the proposed tariff changes. Staff attended this meeting and had discussions with the T-1  
7 tariff customers. At this meeting, both the T-1 tariff customers and Southwest expressed an  
8 interest in having further discussions regarding the proposed changes to the T-1 tariff.

9           7.     On March 5, 2007, Staff held a meeting with Southwest and the T-1 tariff  
10 customers to continue discussing the proposed changes to the T-1 tariff. The March 5th meeting  
11 was attended by approximately 25 T-1 tariff customers or their representatives. Following the  
12 March 5th meeting, Southwest circulated a number of possible changes it could make to its initial  
13 T-1 tariff filing to try to address T-1 tariff customer concerns.

14          8.     On May 9, 2007, Staff held an additional meeting with Southwest, T-1 tariff  
15 customers, and representatives of El Paso. At the May 9th meeting, Southwest's possible tariff  
16 changes, as well as various operational and penalty issues were discussed. Additional discussions  
17 regarding the proposed T-1 tariff changes have taken place between Staff, Southwest, and the T-1  
18 tariff customers. The May 9th meeting was attended by approximately 25 T-1 tariff customers and  
19 their representatives.

20          9.     A number of T-1 tariff customers have expressed concerns with Southwest's initial  
21 proposal, and one purpose of these recent meetings was to discuss ways such concerns could be  
22 addressed.

23          10.    Staff has had a number of communications with T-1 tariff customers and has  
24 considered these communications in evaluating Southwest's filing.

25          11.    As noted by Southwest in its initial and revised filings, its proposed T-1 tariff  
26 revisions are in response to changing operating circumstances on El Paso's pipeline system. These  
27 changes on the El Paso system have resulted in significant operational challenges for both  
28 Southwest and its T-1 tariff customers.

12. One challenge in evaluating Southwest's filings and the concerns of T-1 tariff customers is that at least some of the concerns expressed by T-1 tariff customers relate more broadly to what has happened on the El Paso system and would exist even if Southwest had made no filing to change its T-1 tariff. Staff believes that one of the benefits of the recent meetings is that it has provided a forum for discussion of these broader issues and has at least to some extent helped the various parties better understand changes to how El Paso's system now operates and how this has impacted Southwest.

13. Both Southwest and El Paso have indicated to Staff that they will continue working with T-1 tariff customers to help them better understand the new operating circumstances and to work through issues that may impact T-1 tariff customers' ability to reasonably access T-1 service.

14. In administering its T-1 tariff and approaching possible changes to the T-1 tariff, Southwest must balance the needs and concerns of the T-1 tariff customers with Southwest's needs to operate its system efficiently and reliably while also ensuring that Southwest's core customers are not negatively impacted by existing or proposed T-1 tariff provisions. Realistically, the changes on El Paso's system impose significant new cost and operational burdens on both Southwest and its T-1 tariff customers, and they are both having to adjust how they operate to address these new circumstances.

15. Southwest's initial filing in this case proposed an increase in the time a T-1 tariff customer must remain on sales service after switching from T-1 service from 12 months to 36 months, reflecting Southwest's need for a longer period of time to plan for system resources. A number of T-1 customers expressed concern over what they viewed as an unnecessary lengthening of the period. In subsequent discussions, that are reflected in Southwest's revised filing, Southwest agreed to retain the existing 12 month period, recognizing that other tariff language would enable Southwest to require a longer period if specific circumstances required it.

16. Another issue was Southwest's initial proposal to require customers requesting to initiate T-1 service to make such a request by April 1st of a given year, for service commencing the following November 1st. After further discussions on this issue, Southwest agreed, as is

1 reflected in its revised filing, to accommodate requests for service which are outside these  
2 specified timeframes, to the extent that Southwest is able to do so.

3 17. There was also discussion regarding additional language that was added to the  
4 section of the tariff that requires T-1 tariff customers to demonstrate that they have sufficient  
5 upstream pipeline resources to Southwest. Southwest's revised filing added additional language  
6 which provides the T-1 tariff customers with more details on how the T-1 tariff customer can  
7 demonstrate sufficient upstream pipeline resources.

8 18. An area of considerable concern for the T-1 tariff customers was the passing  
9 through of upstream penalties by Southwest. Given the wide variety of penalties that can now be  
10 incurred on El Paso's system, and the different applicable circumstances for different penalties, it  
11 is difficult to succinctly describe the penalty issues.

12 19. One general area of concern was that T-1 customers wanted to have access to the  
13 information used to calculate the penalties they are assessed. Southwest's revised filing contains  
14 new language in Section 14.1 indicating that Southwest will make all such information available to  
15 T-1 tariff customers upon request.

16 20. Some penalties that have been passed along to T-1 tariff customers are maximum  
17 daily obligation ("MDO") penalties that have been assessed on Southwest by El Paso. MDO  
18 penalties and related issues are still being addressed in El Paso's rate proceeding before the  
19 Federal Energy Regulatory Commission ("FERC"), with Southwest disputing a number of issues  
20 related to how El Paso allocated MDO rights.

21 21. A significant portion of the May 9, 2007 meeting was spent discussing MDO issues  
22 with T-1 tariff customers, Southwest, and El Paso. While it appeared that there was progress at the  
23 May 9th meeting in understanding how MDO issues impact T-1 service and how T-1 tariff  
24 customers can try to avoid MDO penalties, it is not clear at this time how MDO issues will finally  
25 be resolved. Staff will continue to work with Southwest, El Paso, and T-1 tariff customers to  
26 resolve MDO issues and their impacts on T-1 service in Arizona.

27 22. Another penalty issue has been how penalties have already been allocated between  
28 Southwest's core customers and T-1 tariff customers. Southwest initially allocated penalties by

1 determining who it believed had caused the penalties. A review of penalty information for late  
2 2006 and early 2007 shows that in general Southwest allocated more penalties per therm of  
3 throughput to core customers, with a lesser amount per therm of throughput to T-1 tariff  
4 customers. However, within the T-1 tariff customer group a relatively small number of customers  
5 incurred a sizable portion of penalty allocations.

6 23. At the May 9th meeting, Southwest indicated that it now plans to allocate penalty  
7 dollars on a pro rata basis between core and T-1 customers. There was discussion at the May 9th  
8 meeting regarding whether the penalty allocation methodology should be part of Southwest's tariff  
9 or not. Southwest indicated a concern with including it in the tariff because it would be less  
10 flexible to changing circumstances. T-1 customers expressed misgivings with not having it  
11 defined, as this would provide the possibility of the allocation methodology changing with little or  
12 no notice. At the May 9th meeting, Southwest committed to working with T-1 customers and  
13 informing them prior to any changes in the way penalty allocations take place.

14 24. Certain T-1 tariff customers expressed concern regarding specific penalty  
15 allocations that have taken place in recent months. Southwest's revised penalty allocation  
16 procedure may resolve some of these issues. Further, the specific details of a customer's penalty  
17 allocations are not a subject that can be readily addressed in processing Southwest's filing before  
18 the Commission in this proceeding. Southwest's ability to pass along penalties to T-1 tariff  
19 customers already exists in the current T-1 tariff. Southwest's filings in this proceeding attempt to  
20 provide clearer definition to Southwest's ability to pass along applicable penalty dollars to T-1  
21 tariff customers. Staff is hopeful that to the extent issues still exist regarding recent penalty  
22 allocations, that Southwest and these customers can resolve these issues, and if not, the  
23 Commission's complaint process is available.

24 25. At several meetings, T-1 customers expressed an interest in some form of phase-in  
25 of the new provisions and in Southwest passing along the penalties it is assessed by El Paso. The  
26 difficulty with this is that there is no concomitant phase-in period on the El Paso system, so to the  
27 extent Southwest is incurring penalties on the El Paso system, those penalties have to be dealt with  
28 in some fashion. Therefore, Staff does not believe that a phase-in of the new T-1 tariff provisions

1 proposed by Southwest is a suitable course of action. However, Staff has communicated the  
2 necessity of making serious and continuing efforts to work with the T-1 tariff customers as they  
3 adjust to the new operational realities on Southwest's and El Paso's systems, and Staff believes  
4 and expects that Southwest will make such efforts.

5 26. An initial difficulty in dealing with these penalties was that Southwest did not have  
6 the metering equipment in place for all of its T-1 tariff customers to know what their hourly  
7 behavior was. Since that time, it is Staff's understanding that Southwest has installed the  
8 necessary equipment to meter the usage of all T-1 tariff customers on an hourly basis.

9 27. Southwest's revised tariff does contain a new provision, requiring meter locations  
10 with daily requirements of 500 therms or greater to have telemetering equipment installed at the  
11 customer's expense.

12 28. In El Paso proceedings where the new penalty and operational provisions have been  
13 implemented at FERC, one of the general policy positions the Commission has supported is that if  
14 a shipper takes reasonable steps to avoid penalties, such a shipper should generally be able to  
15 avoid significant penalties on the El Paso system. While Staff believes that this goal is yet to be  
16 fully achieved on the El Paso system, Staff believes that similarly on Southwest's distribution  
17 system, T-1 tariff customers who take reasonable steps to avoid penalties should generally be able  
18 to avoid having significant penalties passed along to them by Southwest.

19 29. Staff believes that Southwest's revised tariff filing substantially addresses a number  
20 of the major concerns T-1 tariff customers have expressed, while still providing protections to  
21 Southwest's core customers. However, Staff recognizes that new issues may arise regarding T-1  
22 tariff service in today's operating circumstances and that experience with Southwest's T-1 tariff, as  
23 reflected in Southwest's revised filing, may reveal further improvements that could be made to the  
24 tariff. Further, T-1 tariff customers have requested consideration of certain issues, such as some  
25 form of balancing or pooling services and how Southwest releases its pipeline capacity, which  
26 Staff believes are difficult to address at this time, but may warrant consideration in future  
27 proceedings.

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30. Staff has recommended approval of the tariff changes contained in Southwest's May 23, 2007 revised filing.

31. Staff has also recommended that Southwest, between May 1, 2008 and August 1, 2008, hold at least one meeting with its T-1 tariff customers and Staff to discuss Southwest's experience with the T-1 tariff changes at issue in this proceeding.

32. Staff has further recommended that Southwest, on or before September 1, 2008, file a report with the Commission, discussing its experiences with the T-1 tariff provisions at issue in this proceeding. Further, this report should discuss any possible improvements Southwest could make to the T-1 tariff, and to the extent Southwest identifies such improvements, Southwest's filing on or before September 1, 2008 should include new proposed tariff language for Commission approval to implement such improvements. Southwest's report should also address issues identified by T-1 tariff customers in this proceeding, including the feasibility of implementing some sort of pooling or balancing provisions, the possibility of Southwest releasing El Paso capacity to T-1 tariff customers, and issues surrounding how penalties are allocated between core and noncore customers and within the T-1 customer group. Southwest's report should also discuss the possibility of new tariff options for large core customers, such as some form of interruptible or fixed price service that would provide these customers with additional service options.

33. Staff has further recommended that Southwest docket, as a compliance item in this matter, tariff pages for Schedule T-1 consistent with the terms of this Decision within 15 days from the effective date of a Decision in this case.

## CONCLUSIONS OF LAW

1. Southwest is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over Southwest and over the subject matter of the application.

3. The Commission, having reviewed the application and Staff's Memorandum dated June 12, 2007, concludes that it is in the public interest to approval Southwest's proposed changes

1 to Schedule T-1, contained in Southwest's May 23, 2007 revised filing, subject to conditions  
2 discussed in Finding of Fact Numbers 31-33.

3 ORDER

4 IT IS THEREFORE ORDERED that Southwest's proposed changes to Schedule T-1,  
5 contained in Southwest's May 23, 2007 revised filing, subject to conditions discussed in Finding  
6 of Fact Numbers 31-33, are approved.

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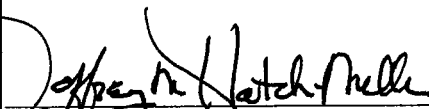
IT IS FURTHER ORDERED that Southwest docket, as a compliance item in this matter, tariff pages for Schedule T-1 consistent with the terms of this Decision within 15 days from the effective date of a Decision in this case.

IT IS FURTHER ORDERED that this Order shall become effective immediately.

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

  
CHAIRMAN

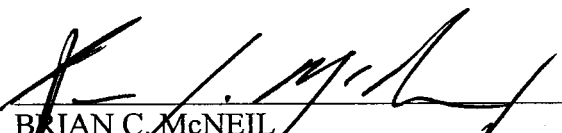
  
COMMISSIONER

  
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COMMISSIONER

IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 28<sup>th</sup> day of June, 2007.

  
BRIAN C. McNEIL  
Executive Director

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

EGJ:RGG:tdp/JMA

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